



September 11, 2006

Jennifer J. Johnson  
Secretary of the Board  
Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenues, N.W.  
Washington D.C. 20551

Via E-Mail

Re: Docket No. R-1262; Regulation D Bankers' Bank Proposal

Ladies and Gentlemen:

U.S. Central Federal Credit Union ("U.S. Central") is pleased to comment on the Board's proposal to amend its published interpretation of Regulation D, Reserve Requirements of Depository Institutions, relating to bankers' banks, 12 C.F.R. § 204.121 (the "Interpretation"), 71 *Fed. Reg.* 46411 (August 14, 2006). U.S. Central supports the Board's proposed amendment. We believe that the proposal has the potential to provide added flexibility to bankers' banks and to enable bankers' banks to serve the financial community more effectively. Accordingly, U.S. Central believes that the Board should adopt the proposal, with a slight modification. U.S. Central also recommends that the Board take this opportunity to increase the amount of business in which bankers' banks may engage with nondepository institutions.

U.S. Central is the wholesale financial center for the nation's corporate credit unions. Founded in 1974, U.S. Central is owned and directed by its 28 member corporate credit unions, in the tradition of the cooperative credit union spirit. As the "credit union for corporate credit unions," U.S. Central exists solely to assist its members in serving 8,800 credit unions across the country by providing corporate credit unions with extensive investment, liquidity, and cash-management products and services; risk-management and analytic capabilities; settlement, funds transfer and payment services; and safekeeping and custody services.

U.S. Central is a bankers' bank because it is organized solely to do business with financial institutions, is owned primarily by the financial institutions with which it does business and does not do business with the general public. As required by the Interpretation, in order to maintain its exemption from Regulation D reserve requirements, the range of customers with which U.S. Central does business is limited to depository institutions, subsidiaries or organizations owned by depository institutions,

directors, officers or employees of depository institutions, share insurance funds and depository institution trade associations.<sup>1</sup>

The Board proposes to add to the current list of prospective customers with which bankers' banks may do business, entities which the Board determines on a case-by-case basis are permissible, consistent with the purposes of the bankers' bank exemption.

U.S. Central believes that such an amendment is desirable and appropriate in view of the rapidly evolving nature of the nation's and world's financial systems. The Board indicates that it is not proposing to specify any standards that will apply to its determinations. Because it may be difficult to predict the nature of such requests, we believe that the Board should not constrain its ability to consider such requests by imposing artificially rigid standards that may reduce the flexibility it is attempting to provide. U.S. Central believes that it may be difficult to anticipate situations that may arise that may call for appropriate determinations by the Board. Added flexibility may be appropriate for bankers' banks to address issues that may arise in connection with unusual events, for example contingency plans such as those that developed in connection with preparations for Y2K. Accordingly, U.S. Central supports the approach proposed by the Board because it will provide bankers' banks with maximum flexibility to make the case that a broadening of the range of permissible customers is appropriate and consistent with the purposes of the bankers' bank provision of the Federal Reserve Act. In addition, U.S. Central recommends that any determinations by the Board be issued as orders rather than informal determinations so that they will be readily available to the public. This will assist in ensuring that Board determinations are available to the public promptly in accordance with the Board's Rules Regarding the Availability of Information, 12 C.F.R. Part 261.

The Federal Reserve Act provides that in order to qualify as a bankers' bank, the institution must be owned primarily by the financial institutions with which it does business. The Interpretation provides that a depository institution will be regarded as being owned primarily by the institutions with which it does business if 75 percent or more of its capital is owned by other depository institutions. This means that a bankers' bank may permit up to 25 percent of its capital to be held by nondepository institutions. We believe that if the Board adopts the proposal, it should clarify that for purposes of determining whether the bankers' bank is owned primarily by financial institutions with which it does business, all entities with which the bankers' bank is permitted to do business under the Interpretation will qualify as financial institutions. We believe that this modification is particularly appropriate for credit unions whose capital consists of shares issued to customers. If the Board expands the range of institutions with which bankers' banks may do business, bankers' banks that are credit unions may find themselves severely limited in the shares that may be held by such institutions because of

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<sup>1</sup> The Interpretation also permits bankers' banks to do business with individuals whose accounts are acquired at the request of the institution's supervisory authority due to the actual or impending failure of another depository institution. U.S. Central does not maintain accounts for individuals.

the Board's ownership limitations. Such a result could severely diminish the effectiveness of the Board's action.

In addition, U.S. Central requests that the Board increase the percentages that apply to the amount of business in which bankers' banks may engage with nondepository institutions. The Interpretation permits bankers' banks to make loans to or investments in the range of permissible nondepository customers in an amount that does not exceed 10 percent of the assets of the bankers' bank, and to accept deposits or shares from such entities in an amount that does not exceed 10 percent of an institution's total liabilities, or net worth if the institution does not receive deposits. U.S. Central believes that the Board should consider increasing the 10 percent limit on loans to, investments in and deposits (shares) from permissible nondepository institutions to 25 percent, which is the limit on permissible ownership by nondepository institutions. A 25 percent limit will make the requirement uniform across all three categories. Moreover, it will simplify compliance issues by providing added flexibility to bankers' banks. We believe that such an increase is consistent with the purposes of the restriction on bankers' banks doing business with the general public. Without an increase in the amounts bankers' banks may lend to, invest in, or receive deposits (shares) from nondepository institutions, bankers' banks will not be in a position to take full advantage of the Board's proposal because they may not have sufficient capacity to make additional loans and investments, or accept additional deposits.

U.S. Central appreciates the opportunity to comment on the Board's proposal to amend the Interpretation.

Respectfully,



François G. Henriquez, II  
Senior Vice President and General Counsel